

Exhibit No.:
Issue(s): O&M Ratio
Employee Overtime
Witness: Antonija Nieto
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2017-0215 and
GR-2017-0216
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

ANTONIJA NIETO

SPIRE MISSOURI, INC., d/b/a SPIRE

**LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY
GENERAL RATE CASE**

**CASE NOS. GR-2017-0215
and GR-2017-0216**

*Jefferson City, Missouri
October 2017*

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OF
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LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY
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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **ANTONIJA NIETO**

4 **SPIRE MISSOURI, INC., d/b/a SPIRE**

5 **LACLEDE GAS COMPANY and MISSOURI GAS ENERGY**

6 **CASE NOS. GR-2017-0215 AND GR-2017-0216**

7 Q. Please state your name, employment position, and business address.

8 A. Antonija Nieto, Utility Regulatory Auditor with the Missouri Public Service
9 Commission (“Commission” or “PSC”), Fletcher Daniels State Office Building, 615 East 13th
10 Street, Kansas City, Missouri 64106.

11 Q. Are you the same Antonija Nieto who has previously provided testimony in
12 this case?

13 A. Yes. I contributed to Staff’s Cost of Service Report (“COS Report”) filed in
14 the Laclede Gas Company (“LAC”) and Missouri Gas Energy (“MGE”) rate cases designated
15 as Case No. GR-2017-0215 and Case No GR-2017-0216, respectively, on September 8, 2017.

16 Q. Briefly describe the purpose of your rebuttal testimony.

17 A. The purpose of my rebuttal testimony is to address the operations and
18 maintenance ratio (“O&M ratio”) LAC and MGE used in their direct filings for their payroll
19 expense adjustments. Additionally, in this testimony, I will address the difference between
20 Staff’s and LAC’s and MGE’s calculation of overtime expense. Both of the issues are in
21 response to the direct testimony and filed accounting schedules of LAC and MGE witness
22 Michael R. Noack.

1 **EXECUTIVE SUMMARY**

2 Q. Please provide a brief summary of your rebuttal testimony.

3 A. In their direct filings, LAC's and MGE's payroll adjustments proposed an
4 O&M ratio be used to calculate certain cost of service allowances. Staff recommends a
5 different O&M ratio be used based upon its review of test year payroll expense. Furthermore,
6 LAC and MGE calculated overtime expense based on the dollar amounts booked in the test
7 year. Staff based its calculation of overtime expense on the average of the actual amount of
8 overtime hours recorded during the test year and annualized amount of overtime hours
9 recorded in 2017, then multiplying it by the most current wage rates as of June 30, 2017.

10 **O&M RATIO**

11 Q. Briefly describe the O&M ratio.

12 A. The O&M ratio is a percentage of payroll expense associated with costs
13 incurred to maintain, repair, and operate the distribution systems of LAC and MGE. The
14 accounts the O&M ratio are applied to are "above the line" accounts, which are included in
15 the revenue requirement calculation. The remaining percentage of the payroll expense is
16 assigned to other clearing accounts, primarily for construction programs (capital projects) for
17 LAC and MGE. In essence, the O&M and construction ratios are used to assign or allocate
18 costs between the ongoing activities of the utility related to operation and maintenance of its
19 system, and activities associated with the utility's construction programs.

20 Q. What is the O&M ratio used for?

21 A. The O&M ratio is used to determine the percentage of payroll expense to be
22 included in the revenue requirement. These expenses are necessary for the day-to-day
23 functioning of a business and commonly include expenses incurred for operation,

1 administration, supervision, preservation, and maintenance of company plant. This
2 percentage of the payroll is associated with the “above the line” expense accounts. The
3 remaining percentage of the payroll expense is related to capital projects and is assigned to
4 other clearing accounts. These costs are linked with capital improvements and provide a
5 future benefit to the company. Capitalized costs ultimately are treated as part of the capital
6 projects and end up as plant in service. These costs will be recovered through depreciation
7 over the useful life of the plant assets.

8 Q. What O&M ratio did LAC and MGE use in their direct filings?

9 A. In their direct filed wage and salary adjustment work papers, LAC and MGE
10 used 61.12% and 72.25%, respectively, for the O&M ratio. Those percentages were derived
11 by dividing the sum amount of test year payroll expense in operations and maintenance
12 accounts by the total payroll expense, which includes the capital accounts.

13 Q. What are the O&M ratios that Staff recommends?

14 A. Staff recommends using 54.33% for the O&M ratio for LAC and 60.23% for
15 MGE.

16 Q. Has Staff’s position on this issue changed from the time of Staff’s direct filing?

17 A. Yes. In data Request Nos. 0044 and 0044.1 Staff requested the wage, salary,
18 and benefits capitalization rate (transfer to capital rate) for the years 2013, 2014, 2015, 2016,
19 and 2017. Additionally, Data Request No. 0130 requested the O&M percentage by division
20 (LAC, MoNat, MGE) for each of the twelve month periods ending December 31, 2012
21 through 2017, and September 30, 2013 through 2017. In its direct filing, Staff recommended
22 using the test year O&M ratio of 55.90% for both LAC and MGE relying on the Company’s
23 response to Data Request No. 0044. Subsequent to direct filing, Staff met with the Company

1 and discussed the O&M ratio. Based on the discussion with the Company and additional
2 information acquired, Staff modified the O&M ratio to 54.33% for LAC and 60.23% for
3 MGE. Staff obtained those ratios by dividing the total expense in operations and maintenance
4 accounts by the total payroll expense.

5 Q. What have been the historic O&M ratios for LAC and MGE, and what rate has
6 been used in the last rate case?

7 A. The O&M ratio for both LAC and MGE has been trending downwards over
8 time. According to LAC and MGE, there has been a significant increase in capital spending
9 over the years, primarily due to the construction program related to Infrastructure System
10 Replacement Surcharge (“ISRS”). In the last LAC rate case (No. GR-2013-0171), the O&M
11 ratio Staff used was 66.36%. In the last MGE rate case (No. GR-2014-0007) the O&M rate
12 Staff used was 84.99%.

13 The following table shows the historical O&M ratios and capitalization ratios:

Laclede Gas	Operation & Maintenance Ratio	Capitalization Ratio	Missouri Gas Energy	Operation & Maintenance Ratio	Capitalization Ratio
2013	65.5%	34.5%	2013	50.6%	49.4%
2014	63.3%	36.7%	2014	83.9%	16.1%
2015	57.4%	42.6%	2015	78.4%	21.6%
2016	55.9%	44.1%	2016	55.9%	44.1%

14
15 Q. Has MGE increased its ISRS related replacements, and how would this affect
16 the O&M ratio?

17 A. Yes. ISRS related plant replacements are considered a capital improvement
18 that will bring future benefit to the Company’s customers. A greater number of construction

1 projects should lead to an increase in the percentage of payroll assigned to the overall
2 construction costs. This results in the increase to the capitalization rate. Capitalization rate
3 and O&M ratio are inversely related; thus, increasing the payroll expense assigned to capital
4 projects will decrease the O&M ratio.

5 **EMPLOYEE OVERTIME**

6 Q. Briefly describe the difference between LAC's and MGE's position and Staff's
7 position concerning overtime expense.

8 A. As a component of payroll expense, Staff calculated overtime expense based
9 on average overtime hours incurred by LAC and MGE during the test year and annualized
10 2017 and applied the most current wage rate through June 30, 2017. The Company
11 determined its amounts for overtime expense for LAC and MGE using the ratio of overtime
12 dollars over the total payroll expense and applying it to the normalized payroll expense.

13 Q. What have been the historic overtime levels for LAC and MGE?

14 A. Staff analyzed the recorded number of overtime hours for LAC and MGE for
15 calendar year 2014, 2015, 2016, and as of June 30, 2017. Data for first three months of 2014
16 was not available for MGE because of the acquisition by LAC. There was a significant
17 increase in overtime hours for LAC from 2014 to 2015. Overtime hours for 2015, 2016, and
18 annualized hours for 2017 were stable with small variances from year to year. Staff observed
19 the same small variances in total overtime hours for MGE for the above referenced periods.

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The following table identifies the levels of overtime for LAC and MGE:

Laclede Gas and MGE		Overtime Hours	Overtime Dollars	Composite Overtime Rate
2015	Union	347,938	\$16,301,927	\$46.85
	Nonunion	21,056	\$21,056	\$40.87
2016	Union	326,343	\$17,498,064	\$48.29
	Nonunion	25,032	\$1,042,948	\$41.67
June 30, 2017	Union	174,915	\$8,964,207	\$51.25
	Nonunion	11,133	\$550,504	49.45
Staff Used in Payroll Calculation	Union	356,086	\$18,249,069	\$51.25
	Nonunion	11,649	\$1,169,402	\$49.45

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Q. How did Staff determine its recommended level of overtime expense?

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A. Staff obtained overtime hours through the Company's response to Staff Data

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Request No. 0149. From the General Ledger, Staff extracted the dollar amounts recorded for

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the overtime cost elements. Total dollar amounts were divided by the total hours to establish a

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composite hourly rate for overtime. Staff used an average hourly rate for the six months

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ending June 30, 2017. Since there were small variations in total overtime hours over the last

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few years, Staff used an average of actual 2016 and annualized 2017 hours in its total

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overtime expense calculation.

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Q. Why did Staff develop its overtime recommendation using the latest wage rate

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applied to the average of overtime hours?

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A. Averages are used to smooth out high and low amounts of historical cost, but

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the primary purpose of normalizing historical cost is to calculate an amount that is

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representative of future cost. Based on the information provided by the Company, Staff

Rebuttal Testimony of
Antonija Nieto

1 concluded that using an average of actual cost in 2016 and annualized cost in 2017 would best
2 represent LAC's and MGE's future costs. Staff also analyzed the composite hourly overtime
3 rate from 2015 through June 2017 and noticed a gradual upward movement. Therefore, Staff
4 concluded that using the latest overtime wage rate would represent future costs most
5 accurately.

6 By using the latest hourly overtime rate and applying it to normalized overtime hours,
7 Staff is providing the most current pricing for future overtime expenses to be incurred by
8 LAC and MGE.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Request to Increase Its Revenues for) Case No. GR-2017-0215
Gas Service)

In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) Case No. GR-2017-0216
Increase Its Revenues for Gas Service)

AFFIDAVIT OF ANTONIJA NIETO

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW ANTONIJA NIETO and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

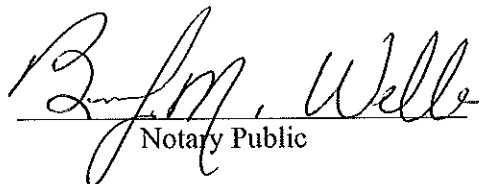
Further the Affiant sayeth not.



ANTONIJA NIETO

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Jefferson City, on this 16 day of October, 2017.



Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070